

TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE



**FISCAL NOTE**

**HB 466 - SB 747**

March 21, 2015

**SUMMARY OF BILL:** Exempts from state and local sales and use tax any sales of disaster recovery services. Defines disaster recovery services as services provided to enable the backup or continuation of technology infrastructure or information systems following a natural or human-induced disaster. Establishes that a person who performs disaster recovery services shall be subject to state and local sales and use taxes for sales or uses of computers, computer software, or other tangible personal property in connection with the performance of disaster recovery services.

**ESTIMATED FISCAL IMPACT:**

**Decrease State Revenue – Net Impact – \$248,500/FY14-15**  
**\$993,800/FY15-16 and Subsequent Years**

**Decrease Local Revenue – \$101,400/FY14-15**  
**\$405,600/FY15-16 and Subsequent Years**

Assumptions:

- Based on an analysis of FY13-14 sales and use return data, the Department of Revenue has identified 426 companies with a NAICS code of 541519, which consists of establishments providing computer disaster recovery services and software installation services. The total taxable sales for such establishments were \$89,244,918. Assuming growth rates of 5.5 percent and 4.3 percent for sales tax collections in FY14-15 and FY15-16 respectively, total taxable sales are estimated to be \$98,201,984.
- It is assumed that 50 percent of such sales, or \$49,100,992, is from businesses providing computer disaster recovery services, as defined in the proposed legislation.
- It is further assumed that 30 percent of such sales, or \$14,730,298, will be exempt from state and local sales and use taxes under this bill.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The net recurring decrease in state revenue is estimated to be \$993,825  $[(\$14,730,298 \times 7.0\%) - (\$14,730,298 \times 7.0\% \times 3.617\%)]$ .
- The total recurring decrease in local revenue is estimated to be \$405,553  $[(\$14,730,298 \times 2.5\%) + (\$14,730,298 \times 7.0\% \times 3.617\%)]$ .

- Due to the bill taking effect upon becoming a law, it is assumed that one-fourth of the recurring impact (\$248,456 state revenue decrease; \$101,388 local revenue decrease) will occur in FY14-15.

**CERTIFICATION:**

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in dark ink, appearing to read "Jeffrey L. Spalding". The signature is fluid and cursive, with the first name "Jeffrey" and last name "Spalding" clearly distinguishable.

Jeffrey L. Spalding, Executive Director

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